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MANAGING TO PAYROLL
AND THE NAVAL POSTGRADUATE SCHOOL
PUBLIC WORKS DEPARTMENT

by

Stephen Ashley Boyce

December 1988

Thesis Advisor: K.J. Euske

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The Managing To Payroll program was implemented in October 1987. The program is intended to improve the control of Navy civilian personnel costs. The program is also intended to give Navy line managers the ability to tailor civilian work force structures to payroll budget control numbers. This thesis is about the US Navy Managing To Payroll program and how it has affected the payroll budget execution process of the Naval Postgraduate School Public Works Department. The program has improved the control of Public Works Department civilian personnel costs. The program has not given the Public Works Department the ability to tailor its civilian work force structure to payroll budget control numbers.

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Managing to Payroll and the Naval Postgraduate School Public Works Department

by

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Lieutenant Commander, United States Navy
B.A., Mars Hill College, 1976

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
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ABSTRACT

The Managing To Payroll program was implemented in October 1987. The program is intended to improve the control of Navy civilian personnel costs. The program is also intended to give Navy line managers the ability to tailor civilian work force structures to payroll budget control numbers. This thesis is about the US Navy Managing To Payroll program and how it has affected the payroll budget execution process of the Naval Postgraduate School Public Works Department. The program has improved the control of Public Works Department civilian personnel costs. The program has not given the Public Works Department the ability to tailor its civilian work force structure to payroll budget control numbers.

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I. INTRODUCTION

The thesis analyzes how the U.S. Navy Managing to Payroll program has affected the payroll budget execution process of the Naval Postgraduate School Public Works Department. The primary research question is: Has the Managing to Payroll program improved the control of Public Works Department civilian personnel costs? The secondary research question is: Has the Managing to Payroll program given the Public Works Department the ability to change its civilian work force structure to conform to payroll budgets set by higher authority?

Managing to Payroll was implemented in October 1987. The program was developed to assist Navy managers reduce the Navy civilian payroll by causing line managers to make deliberate decisions on payroll spending based on position importance, program contribution, individual competence, and available budget. (Managing to Payroll Guidance, 1986) The program is intended to give line managers the ability to tailor civilian work force structures to payroll budget control funding levels. The program is also intended to give line managers greater responsibility and accountability for managing civilian personnel costs. (Handout from a NCPC Managing to Payroll briefing, 1986)

Budgeting is the pairing of available resources to programs designed to achieve the organization's goals. Budgets also provide a standard against which performance attributes can be measured. Comparing performance attributes to a budget provides feedback to the planning and control process. Feedback guides corrective action and assists in goal and plan revision. A better budgeting process should lead to better management control of resources. (Anthony, Dearden, Bedford, 1984)

Managing to Payroll can be characterized as an effort to improve the budget process because its objective is to accurately pair civilian personnel requirements (a resource) to programs and organizational goals. Managing to Payroll emphasizes managing civilian employment as a resource element of a program rather than as an expense that is beyond the line manager's control. (Secretary of the Navy Instruction 12510.9, 26 August, 1986)

The thesis describes the Managing to Payroll program and the problems it was intended to correct. The thesis will be limited to how the Managing to Payroll program has affected the Public Works Department's payroll budget execution process and which of the program's goals, if any have been achieved.

The following types of data have been collected from the Naval Postgraduate School Public Works Department, Comptroller's Office, and Civilian Personnel Office.

1. Description of the assigned tasks, organization, and manning of the Public Works Department.

2. Budget and Payroll information that pertains to the Managing to Payroll program and the Public Works Department.

3. Descriptions of the civilian position management and classification process.

4. Descriptions of the Naval Postgraduate School payroll budget execution process.

5. Descriptions of the Navy budget process.

6. Sixteen hours of interviews were conducted with five staff members of the Naval Postgraduate School. The Deputy Comptroller and the Managing to Payroll program manager were interviewed. The Head of position classification in the Civilian Personnel Office was interviewed. The Public Works Officer and a Public Works Department budget analyst were also interviewed.

Chapter II explains how the Managing to Payroll program is implemented in the Navy. It begins with a brief description of the process for determining the salary or wage level of civilian positions. It concludes with a description of the Managing to Payroll program and a discussion of the expected benefits.

Chapter III explains the organization and payroll budget process of the Naval Postgraduate School Public Works Department. The chapter begins with a brief explanation of the Public Works Department, Comptroller's Office, and Civilian Personnel Office place in the School's organizational structure. The chapter then explains the composition of the Public Works Department civilian work force. The discussion focuses on payroll issues, rather than the functional responsibilities of the different

divisions. The chapter concludes with a discussion of the Public Works Department payroll budget process.

Chapter IV explains how the Public Works Department manages its civilian payroll. The chapter explains why the Department does not use position management and classification actions to tailor the work force to the authorized payroll. The chapter also shows how the work force has grown from the minimum required to operate in 1983 to the current organization.

Chapter V presents four conclusions. They are based on the material presented in Chapters II-IV. The chapter ends with two questions for further research.

The Navy's civilian personnel costs steadily increased before adoption of the Managing to Payroll program. Managing to Payroll is a reform designed to control these costs. (Cohen, 1987) If a design flaw prevents the Program from achieving its goals at the Naval Postgraduate School Public Works Department, then there may be reason to believe that the Managing to Payroll program will not function successfully at similar activities. Conversely, if the Program appears to help control civilian personnel costs, then there may be reason to believe that the program will do so at similar activities.

II. MANAGING TO PAYROLL IN THE NAVY

A. INTRODUCTION

This chapter explains how the Managing to Payroll program is implemented in the Navy. A primary purpose of the Managing to Payroll program is to improve budgetary control of civilian personnel costs (Cohen, 1987). The program ideology is simple. Line managers are given the authority to determine the salary or wage level for the civilian positions in their organizations. These managers are then to be held responsible for operating their organizations within payroll funding authorized by higher authority. Salaries or wage rates for employees are determined by the grade classification of the employee's position. (Managing to Payroll Training Course Instructor Guide, 1986)

Anthony, Dearden and Bedford (1984) define line managers as the people in an organization who make the plans and lead others. Line managers are evaluated on the success or failure of their areas of responsibility. Staffs collect, summarize, and present information. Line managers make decisions, take risks, and suffer the consequences of their decisions. (Anthony, Dearden, and Bedford, 1984). This definition of line managers coincides with the Navy's

Managing to Payroll Training Course Instructor Guide, (1986).

The chapter begins with a brief description of the process for determining the salary or wage level for civilian positions. It concludes with a description of the Managing to Payroll program and a discussion of the expected benefits.

B. BACKGROUND

Managing to Payroll was a fundamental change to Navy civilian personnel management policies. Authority for position classification was taken from activity Civilian Personnel Offices and given to the line managers. (Managing to Payroll Training Course Instructor Guide, 1986)

The position classification process determines the grade, and appointment type required for a particular job. Position classification standards are developed by the Federal Office of Personnel Management. They are the legal basis for determining the appointment type and grade that must be assigned to a particular position. Separate position classification standards are developed for different occupations. Standards which cut across occupational lines are the guides for the classification of supervisors. All federal agencies and departments classify civil service positions based on these standards. (Young, 1986)

There are four categories of appointments to the Federal Civil Service: temporary limited, term, career-conditional, and career. Temporary limited appointments are used to fill a position that is not expected to last more than one year. They may also be used to fill a permanent position that will be temporarily vacant. These appointments may be extended annually up to a maximum of four years. Term appointments are used to fill positions associated with specific projects. Term appointments extend for more than one year, up to a maximum of four years. Career conditional appointments are awarded to people who are initially appointed to permanent assignments within the Federal Civil Service. The first year of service is a probationary period. After three years of satisfactory service, the employee is awarded a career appointment. A career appointment is a permanent appointment to the Federal Civil Service.

Temporary appointments are renewed at management's discretion. If positions are eliminated, employees are separated depending on their appointment type. Basically, temporaries must be separated before career conditional employees. Career conditional employees must be separated before permanent employees. (Young, 1976) Employee layoffs are called reductions in force, or RIF's. RIF's are discussed more completely in Chapter IV.

Federal Civil Service pay is determined by the employee's grade, and type of appointment (Young, 1986). Federal civilian payrolls are administered under two basic pay plans. They are the General Schedule (GS) and the Federal Wage System (FWS). Positions are classified under the two pay plans according to the skills, responsibilities, and level of proficiency required by the position. There are 15 GS grades. Each grade has ten pay steps. Satisfactory performance ratings allow an employee to advance in sequential pay steps within a particular grade. Employees who receive satisfactory performance ratings for a specified period of time are automatically entitled to a step increase in pay. Automatic increases in pay steps are called Within Grade Increases or WIG's. Grade advancement is achieved by transferring to a position classified at the higher grade. (Practical Comptrollership Course Manual, 1988)

Supervisors and managers in grades GS-13 through GS-15 are designated Merit Pay Employees (GM). These employees do not have pay steps. They have maximum and minimum salaries based on their grade. Their actual salary is determined by their performance ratings. Merit Pay Employees are still considered to be classified under the General Schedule. General Schedule salaries are set by Congress and are uniform throughout the country. (Practical Comptrollership Course Manual, 1988)

Positions can be exempted from the General Schedule only by Congressional action. All civilian offices and positions in the Executive Branch of the Federal Government are covered by the General Schedule unless exempted by statute. Congress has exempted employees in recognized trades or crafts from the General Schedule. These employees are paid under the Federal Wage System (FWS). The Federal Wage System covers,

> ...those employees in recognized trades or crafts or other skilled mechanical crafts or in unskilled, semi-skilled, or skilled manual labor occupations and other employees including foremen and supervisors in positions having trade, craft, or laboring experience and knowledge as the paramount requirement. (Federal Personnel Manual, Section 511, 1969)

Wage rates for Federal Wage System positions are approximately equal to the rates paid by private employers in the same wage area for similar types of work performed in the Federal Civil Service. A wage area is a geographic area defined by the United States Office of Personnel Management. A single set of wage rates is applied uniformly to all Federal Wage System positions in the wage area. For example, all air conditioning equipment mechanics employed by the Federal Government in the same wage area make the same hourly wage. This wage rate is determined by a survey of the wages paid to air conditioning mechanics by private industry in the wage area. (Federal Personnel Manual Supplement 532-1, Subchapter S4, 1984)

Wage surveys are conducted at approximately annual intervals by a federal agency designated by the United States Office of Civilian Personnel Management. Wage rate schedules are developed from the survey and implemented by all federal agencies in the wage area. The wage area for the Naval Postgraduate School encompasses Monterey and San Benito Counties. Surveys are conducted by the U.S. Army Civilian Personnel Office at Fort Ord California and begin each February. (Federal Personnel Manual Supplement 532-1, Subchapter S5, 1984)

The Federal Wage System is divided into several specific pay plans. Positions are classified by pay plan depending upon the paramount requirement of the work required by the position. The Federal Wage System pay plans that pertain to the Public Works Department are explained below.

1. Wage Grade (WG)--Non-supervisory worker. There are 15 WG grades.

2. Wage Leader (WL)--An employee who leads others as well as performs work. WL is a supervisory position below foreman. The numerical grade of a wage leader is supposed to be the same as the grade of the workers who are led. There are 15 WL grades.

3. Wage Supervisor (WS)--An employee who has full supervisory responsibilities. Foremen are WS positions. There are 19 WS grades.

4. Planner and Estimator (WD)-An employee who plans, and monitors the progress of specific jobs. Planners are non-supervisory positions. There are 19 WD grades.

Within each Federal Wage System grade are five sequential pay steps. Federal Wage System employees advance up the

pay steps in the same manner as General Schedule employees. (Managing to Payroll Instructor Guide, 1986)

Before the adoption of the Managing to Payroll program, each Navy activity's Civilian Personnel Office was the sole authority for determining the classification of that activity's civil service positions. The classifications were based on the position classification standards published by the Federal Office of Personnel Management. The activity's Civilian Personnel Office classifier assigned a grade level and type of appointment to each position. Since grade level and appointment type determine salary, the classifier established the position's cost to the activity. Position classification determines the activity's payroll. Unlike line managers, the Civilian Personnel Office had no responsibility for managing the activity's budget. (Barnette, 1987)

The Navy's civilian personnel costs steadily increased before adoption of the Managing to Payroll program. Line managers lacked sufficient budgetary control over their personnel operations because they had no significant control over the position classification process. Line managers did not have the authority to restructure their organizations in response to changing mission requirements or budgets. The Civilian Personnel Office, which was responsible for the proper classification of positions, was not responsible for meeting budgetary goals. Even managers with the authority

to authorize multimillion dollar contracts, could not authorize a $1600 pay raise for an employee. Classification authority was not linked with responsibility for managing employment within allocated payrolls. (Cohen, 1987)

C. PROGRAM DESCRIPTION

Managing to Payroll was implemented in October 1987. The program is intended to reduce the Navy civilian payroll by causing line managers to make deliberate decisions on payroll spending based on position importance, program contribution, and individual competence. (Managing to Payroll Guidance, 1986)

The Managing to Payroll program delegates position classification authority from the Secretary of the Navy to activity heads. This authority permits line managers to manage civilian resources consistent with associated budgetary funding levels. The program does not apply to:

1. The Senior Executive Service.
2. General Schedule employees in grades 15 and above.
3. Civilian mariners in the Military Sea Transportation Service.
4. Non-appropriated fund positions.

The program provides line managers with authority for classifying civilian positions subject to civilian payroll resources available. The concurrent allocation of authorized payroll funding to line managers emphasizes managing civilian employment as a resource cost element of

funded programs at each stage of the Navy budget process. The program requires that all positions and organizations be structured to achieve efficiency and economy in support of the activity's mission. Line managers are to be provided with greater responsibility and accountability for managing civilian personnel as a cost element. The program requires that position classification and payroll allocation be delegated at least one level below the activity head. Classification authority and payroll allocation cannot be separated. The program prohibits the Comptroller of the Navy from imposing numerical personnel management controls separate from the budget process. (SECNAVINST 12510.9, 26 August, 1986)

> With Managing To Payroll, there will be no separate execution controls on work years, end strength, or on the number of high-grade positions. If end strength controls are applied to DON by higher authority, they will be allocated no lower than the major claimant level; lower allocations will be by payroll allocation, not by end strength. (SECNAVINST 12510.9, 26 August, 1986)

The allocated payroll consists of the following elements:

1. Basic salary.
2. Lump sum leave.
3. Overtime.
4. Holiday premium pay.
5. Outside the continental United States differential pay.
6. Premium pay for fire fighters, investigators, and scientists.

7. Night differential pay.
8. Hazardous duty pay.
9. Awards and suggestion bonuses.
10. Rehired annuitant salary.
11. Sunday differential pay.

Line managers are responsible for the management of these payroll elements. The total expended cannot exceed the line manager's authorized payroll. (CNO letter of 22 September, 1986) All activities send monthly payroll spending reports up the chain of command to the Comptroller of the Navy. The Comptroller uses the reports to monitor Navy payroll costs. (NAVCOMPNOTE 7300, 8 September, 1986)

D. EXPECTED BENEFITS

The Managing to Payroll program is intended to control civilian personnel costs and ultimately reverse cost escalation. It also is designed to enable more accurate budget formulation and execution for civilian personnel costs. Managing to Payroll focuses on the contribution civilian personnel make toward an activity's goals. (Robert Conn, Assistant Secretary of the Navy for Financial Management, 19 April, 1988) The program incorporates new methods to directly improve the budget process by attempting to accurately pair civilian personnel requirements (a resource) to programs required to accomplish an activity's mission. Managing to Payroll emphasizes managing civilian employment as a resource element of a program rather than as

an expense that is independent of programs. Specific financial management and budget process improvements intended by the Managing to Payroll program include:

1. Ensuring that payroll is consistent with function importance.

2. Providing authority to control civilian payroll expenditures within assigned levels.

3. Causing managers to regard civilian personnel as a program resource cost. Budgets should reflect the civilian resources needed to accomplish programs instead of just treating payroll as an expense beyond the line manager's control. (Handout from a NCPC Managing to Payroll briefing, 1986)

III. THE NAVAL POSTGRADUATE SCHOOL PUBLIC WORKS DEPARTMENT

A. INTRODUCTION

This chapter explains the organization and payroll budget process of the Naval Postgraduate School Public Works Department. The chapter begins with a brief explanation of how the Comptroller's Office, Civilian Personnel Office and Public Works Department fit into the School's organizational structure. The chapter then explains the composition of the Public Works Department civilian work force. The discussion focuses on payroll issues, rather than the functional responsibilities of the different divisions. The chapter then concludes with a discussion of the Public Works Department payroll budget process.

B. ORGANIZATION OF THE SCHOOL

The Naval Postgraduate School is located in Monterey, California. The School provides advanced education for commissioned officers of United States and allied armed forces. The school is commanded by an officer of flag rank who is designated as the Superintendent. The school is under the command of the Chief of Naval Operations. The Superintendent is responsible to the Chief of Naval Operations for the accomplishment of the school's mission.

(Naval Postgraduate School Organization and Regulations Manual, 1986)

The thesis focuses on four departments: The Comptroller's Office, the Civilian Personnel Office, The Director of Military Operations, and the Public Works Department. The Comptroller is the assistant to the Superintendent for financial management. The Comptroller's specific responsibilities include:

1. Translating program requirements into financial plans.
2. Formulating the school's budget request to the Chief of Naval Operations.
3. Managing the execution of the budget approved by the Chief of Naval Operations and the Superintendent. (Naval Postgraduate School Organization and Regulations Manual, 1986)

The Director of the Civilian Personnel Office is the assistant to the Superintendent for civilian personnel. The Civilian Personnel Office advises all levels of school management on all matters of civilian employment. The Office is responsible for the following civilian personnel functions:

1. Employee-management relations, including negotiations with unions and specific employee grievances.
2. Staffing and recruitment.
3. Employee services and benefits.
4. Assist line managers with position classification and management actions.
5. Training of employees and managers. (Naval Postgraduate School Organization and Regulations Manual, 1986)

The Director of Military Operations is a Navy captain of the unrestricted line. He is an assistant to the Superintendent and serves in the capacity of base commander. He is responsible for all non-academic services and support. These services include administration, military personnel, security, public affairs, recreation, housing, supply, communications, fire protection, public works, chaplain services, and the naval justice system. (Naval Postgraduate School Organization and Regulations Manual, 1986)

The Public Works Department is headed by a Navy Civil Engineer Corps officer. He functions as an assistant to the Director of Military Operations for the administration and supervision of the Public Works Department. The Public Works Department is responsible for the planning, design, maintenance, and repair of the school's facilities and utilities. These responsibilities include:

1. Pest control.
2. Transportation maintenance and operations.
3. The operation and maintenance of the steam generating plants, and the steam and electrical distribution systems.
4. The operation and maintenance of the administrative telephone system.
5. The maintenance of the school's physical plant comprising over 600 acres and approximately 2.5 million square feet of building space. The physical plant is made up of classrooms, utility buildings, offices, military quarters, family housing, recreational facilities, paved roads, landscaped grounds, and a golf course. (Request for Proposal, 1983)

C. COMPOSITION OF THE PUBLIC WORKS DEPARTMENT CIVILIAN WORK FORCE

As of May, 1988, the Public Works Department had 120 employees and nine vacant positions. The actual fiscal year 1988 annualized payroll for the Public Works Department was $3,131,049.00 (as of 27 May, 1988). This figure includes all costs covered by the Managing to Payroll program except overtime. The fiscal year 1988 overtime estimate for the Public Works Department was $32,750.00. The total fiscal year Managing To Payroll budget authority for the department was $2,937,688.00. (Staff Interviews, Summer, 1988)

In May of 1988, the civilian work force was structured as shown in Table 1. The table shows the number of employees assigned per grade in each division of the Department. The table also shows the number of temporary and permanent employees in each grade. The total payroll figures are the Managing to Payroll figures for each division. They are annualized and do not include overtime. (Employee Roster, 27 May, 1988)

Temporary employees cost the activity less than permanent employees. The fringe benefits associated with a temporary appointment are approximately 11.5% less than those associated with a permanent appointment. Fringe benefits are budgeted for and paid by the activity. They are not included in the Managing to Payroll program. (Staff Interviews, Summer, 1988)

TABLE 1

CIVILIAN WORK FORCE STRUCTURE

Administrative Division

No. Assigned	Grade	Status
1	GS-11	PERMANENT
2	GS-7	BOTH PERMANENT
2	GS-5	BOTH PERMANENT
4	GS-4	3 PERMANENT, 1 TEMPORARY
1	WG-11	PERMANENT (School's only telephone mechanic)

Total employed: 10 Total payroll: $183,231.00

Shops Division

Supervisory and Office Staff

No. Assigned	Grade	Status
1	GS-11	PERMANENT
1	GS-9	PERMANENT
1	GS-7	PERMANENT
1	GS-5	PERMANENT
1	WS-16	PERMANENT
2	WS-14	PERMANENT
1	WG-8	TEMPORARY
1	WG-6	TEMPORARY

Total employed: 9 Total payroll: $262,875.00

TABLE 1 (CONTINUED)

Standing Job Order Work Center

No. Assigned	Grade	Status
1	WS-11	PERMANENT
1	WL-10	PERMANENT
1	WG-12	PERMANENT
1	WG-11	PERMANENT
8	WG-10	PERMANENT
4	WG-8	2 PERMANENT, 2 TEMPORARY
1	WG-5	TEMPORARY

Total employed: 17 Total payroll: $490,757.00

Emergency Services Work Center

No. Assigned	Grade	Status
2	WL-10	PERMANENT
1	WL-3	TEMPORARY
1	WG-11	PERMANENT
6	WG-10	5 PERMANENT, 1 TEMPORARY
6	WG-9	PERMANENT
2	WG-8	1 PERMANENT, 1 TEMPORARY
1	WG-7	PERMANENT
3	WG-5	1 PERMANENT, 2 TEMPORARY

Total employed: 22 Total payroll: $563,489.00

TABLE 1 (CONTINUED)

Specific Job Order Work Center

No. Assigned	Grade	Status
1	WL-10	PERMANENT
2	WS-10	PERMANENT
6	WG-10	PERMANENT
6	WG-9	1 PERMANENT, 5 TEMPORARY
2	WG-8	1 PERMANENT, 1 TEMPORARY
1	WG-7	PERMANENT

Total employed: 18 Total payroll: $484,616.00

Gardening and Minor Maintenance Work Center

No. Assigned	Grade	Status
1	WS-8	PERMANENT
3	WG-8	1 PERMANENT, 2 TEMPORARY
1	WG-6	PERMANENT
3	WG-4	1 PERMANENT, 2 TEMPORARY
6	WG-3	TEMPORARY

Total employed: 14 Total payroll: $290,862.00

TABLE 1 (CONTINUED)

Transportation Work Center

No. Assigned	Grade	Status
1	WS-10	PERMANENT
4	WG-10	3 PERMANENT, 1 TEMPORARY
1	WG-8	PERMANENT
1	WG-7	TEMPORARY
2	WG-6	PERMANENT
1	WG-5	PERMANENT

Total employed: 10 Total payroll: $254,957.00

Housing Division

No. Assigned	Grade	Status
1	GS-12	PERMANENT
1	GS-11	PERMANENT
1	GS-9	PERMANENT
1	GS-8	PERMANENT
2	GS-7	PERMANENT
1	GS-4	PERMANENT

Total employed: 7 Total payroll: $166,173.00

Maintenance Control Division

No. Assigned	Grade	Status
1	GS-12	PERMANENT
1	GS-10	PERMANENT
5	WD-8	4 PERMANENT, 1 TEMPORARY

Total employed: 7 Total payroll: $244,472.00

TABLE 1 (CONTINUED)

Engineering Division

No. Assigned	Grade	Status
1	GM-13	PERMANENT
3	GS-11	PERMANENT
1	GS-9	PERMANENT
1	GS-4	PERMANENT

Total employed: 6 Total payroll: $189,617.00

D. THE PUBLIC WORKS DEPARTMENT PAYROLL BUDGET PROCESS

Most government agencies are expense centers because their activities do not generate revenues or profits. An expense center's management control system measures inputs in monetary terms and outputs in non-monetary terms. Budgets are developed only for the inputs to an expense center's operations. (Stoner, 1986) Expense center budgets are either engineered or discretionary. Engineered budgets are used when outputs can be measured in monetary terms or units of production. They are useful for measuring efficiency. Discretionary budgets are used when outputs cannot be measured in monetary terms or units of production. They are not very useful for measuring efficiency. (Anthony, Dearden, Bedford, 1984) Expense center managers are responsible for spending the budgeted amounts, unless a change is specifically approved. Most government agency

budgets are discretionary expense budgets. (Anthony, Dearden, Bedford, 1984)

A top down budget process is one in which top management gives operating managers specified budget objectives. Operating managers have little, or no input to the budget process. The top down approach allows top management to put forward their comprehensive views of the organization and its environment. The top down approach is appropriate when operating managers must be given explicit performance objectives due to environmental factors outside top management's control. The top down approach is also productive when operating managers lack the perspective to effectively participate in the budget formulation process and when close coordination between organizational units is required. (Churchill, 1984)

Based on these criteria, the Public Works Department's payroll budget can be characterized as a discretionary expense budget managed from the top down. The Public Works Department has virtually no input to the process. The payroll budget is based on the number of civilian positions in the Public Works Department and the amount of payroll funds available to the School. The amount of payroll funds provided to the School is determined by the Navy budget process. (Staff Interviews, Summer, 1988)

The Naval Postgraduate School Comptroller's Office submits proposed payroll allocations for the different AG's

and SAG's that pertain to the School to the Office of the Chief of Naval Operations, Field Support Activity. An AG is a two digit alpha-numeric code that represents a major function identified by budget claimants in their budget submissions and can be traced to programs in the Planning, Programming, Budgeting System. SAG's are four digit alpha-numeric codes that represent finer functional areas within AG's. (Navy Comptroller Manual, Section 024680, 1988) The Field Support Activity (FSO) is an agency of the Chief of Naval Operations and serves as the School's major claimant. These proposed allocations are part of the School's annual budget submission and are based on the Managing to Payroll controls given to the School by the Field Support Activity. The School cannot submit a budget that exceeds the controls set by the Field Support Activity and the Comptroller of the Navy. The School Comptroller's office uses the following process to determine the proposed payroll allocations. First, the number and grade of the positions in a particular AG or SAG is determined. Second, the average salary for the SAG or AG is calculated. Ninety-eight percent of the average salary is allocated to the AG or SAG. If the Managing to Payroll control number is less than 98 percent of the average salary, then the Managing to Payroll control becomes the payroll allocation for that AG or SAG. Only 98 percent of the average salary is allocated because all the positions in an AG or SAG are almost never filled at the

same time. Once approved, these budget submissions become the School's payroll budget for the current fiscal year. (Staff Interviews, Summer, 1988)

The School's Comptroller then allocates the payroll controls to the AG's and SAG's that pertain to the School's different departments. Very few AG's and SAG's overlap departments. The Comptroller's Office personnel allocate the approved payroll budget based on the average salary of the positions in the different AG's and SAG's. No payroll money is held back by the Comptroller's Office. All of the Managing to Payroll budget provided to the school is allocated to the various line managers. (Staff Interviews, Summer, 1988)

The Director of Military Operations has been designated as the line manager for the purposes of the Managing to Payroll program for his department. The Director of Military Operations serves as the line manager for:

1. The Public Works Department.
2. The Supply Department.
3. The Security Department.
4. The Fire Department.
5. The Administrative Department.
6. The Bachelor Officer and Bachelor Enlisted Quarters.
7. The Public Affairs Department.
8. The Legal Department.
9. The Recreational Services Department.

The Public Works Department payroll budget is managed by the Public Works Department Administrative Division. (Staff Interviews, Summer, 1988)

The Public Works Department Administrative Division reports actual payroll expenses to the Comptroller's Office. The Comptroller's Office provides the Director of Military Operations and the other line managers with a Managing to Payroll budget report every two pay periods. The report is broken down by AG's and SAG's and shows the budgeted amount, the amount expended to date, and the payout rate. The payout rate is the amount expended versus the time elapsed in the fiscal year. Half way through the fiscal year, 50 percent of the budgeted payroll should have been spent. The Comptroller's Office also submits the monthly Managing to Payroll report to the Comptroller of the Navy, via the Field Support Activity. (Staff Interviews, Summer, 1988)

The seven SAG's that pertain to the Public Works Department are explained below. The total payroll allocated to these SAG's is the Public Works Department's Managing to Payroll budget goal.

1. F3FC--Utilities operation and maintenance.
2. F3FD--All costs not included in other functional categories. Examples are engineering and administration, custodial services, entomology services, refuse collection, and fire protection (also applies to the Fire Department).
3. F3FN--Administrative telephone services.

4. F3FR--Base services including the operation and maintenance of transportation equipment (also applies to the Security Department).

5. F4FA--Maintenance of real property.

6. F4FB--Minor construction of buildings and other facilities.

7. M8MZ--Electronics repair and maintenance (Public Works has two positions). (Navy Comptroller Manual, Section 024663, 1988)

As of May 1988, the Public Works Department had 120 civilian employees. The annualized payroll was $3,131,049.00. The total fiscal year Managing to Payroll budget goal for the department was $2,937,688.00. How this $193,361.00 discrepancy is managed is the principle theme of Chapter IV.

IV. MANAGING TO PAYROLL AND THE PUBLIC WORKS DEPARTMENT

A. INTRODUCTION

This chapter explains how the Public Works Department manages its civilian payroll. The chapter explains why the Department does not use position management and classification actions to tailor the work force to the authorized payroll. The chapter also shows how the work force has grown from the minimum required to operate as defined in 1983 to the current organization.

The chapter begins with an explanation of the civilian position management and classification process. The Public Works Officer does not have authority to reclassify or manage positions. The Director of Military Operations is the line manager for the Public Works Department. Proposed classification and position management actions originating in the Public Works Department are reviewed with the Civilian Personnel Office staff before they are sent to the Director of Military Operations for approval. Once approved, the Civilian Personnel Office staff reclassifies the position. (Staff Interviews, Summer, 1988)

The second section lays out the minimum number of civilian positions required to operate the Public Works Department. The minimum number of civilian positions required to operate the Department is called the Most

Efficient Organization (MEO). This organization was developed by the Public Works Department in 1983 under the provisions of the Navy Commercial Activities Program. The 1983 MEO provides the best available estimate of the minimum payroll required to operate the Public Works Department. The current organization is compared to the 1983 MEO.

The third section describes the most important obstacles faced by the Public Works Officer when he tries to implement the Managing to Payroll program. The Managing to Payroll program was designed to give line managers the tools they needed to tailor their organizations to decreasing payroll funding levels. The program emphasizes position classification and management as the best ways to reduce payroll spending. However, as section three demonstrates, civilian personnel management regulations prevent position management and classification authority from being effective tools for tailoring organizations to decreasing payroll funding levels. Not filling vacant positions, reclassifying vacant positions, and separating temporary employees are the only practical ways the line managers can control actual payroll expenditures. (Staff Interviews, Summer, 1988)

Section four explains how the Public Works Officer actually manages payroll expenditures within the Public Works Department. Before Managing to Payroll, the Public Works Officer and the School's Comptroller viewed civilian personnel costs as being beyond their control. The payroll

was funded first. Often, unobligated funds originally budgeted for purposes other than payroll were used to pay civilian personnel. Managing to Payroll establishes budgetary ceilings for payroll costs within each Naval establishment and prohibits expenditures in excess of those limits for payroll by any individual command, regardless of whether excess funds are available from other budget categories. (Staff Interviews, Summer, 1988 and Secretary of the Navy Instruction 12510.9, 1986)

B. THE POSITION MANAGEMENT AND CLASSIFICATION PROCESS

The Director of Military Operations is the line manager for the Public Works Department. Proposed position management and classification actions originating in the Public Works Department are reviewed with the Civilian Personnel Office staff before they are sent to the Director of Military Operations for approval. Once approved, the Civilian Personnel Office staff reclassifies the position. (Staff Interviews, Summer, 1988) Position management refers to the organizing and structuring of positions within an organization. Position management involves the establishment or abolition of positions in the line manager's organization. Position classification describes the duties and responsibilities of established positions. The Managing to Payroll program emphasizes the use of position management and classification actions to tailor the civilian work force

to the authorized payroll. (Managing to Payroll Training Course Instructor Guide, 1986)

There are three basic principles of position classification. One, equal work requires equal grades. Two, differences in grades must be proportional to the differences in the difficulty, amount of responsibility, and qualification requirements of positions. Three, the position is classified, not the person. The function, duties, responsibilities, and qualification requirements of the position determine the grade of the employee. The employee's own personal abilities and qualifications have nothing to do with classifying the position. For example, an Accounting Technician is a GS-5 position, regardless if the incumbent is a high school graduate or an MBA. (Managing to Payroll Training Course Instructor Guide, 1986)

A position's classification is based on a position description.

> A position description is an official written statement of the major duties, responsibilities, qualification requirements and supervisory relationships of a position. (Managing to Payroll Training Course Instructor Guide, 1986)

Position descriptions are written by line managers based on guidelines provided by the U.S. Office of Personnel Management. The position description then leads to the determination of the three elements of a position classification. These three elements are the position's pay plan, grade, and classification series. The pay plan and

grade determine the salary of the employee and therefore the position's cost to the organization. The grade is determined by the amount of difficulty and responsibility required to perform the duties of the position and the qualifications required to hold the position. The classification series identifies a group of similar specialized types of work or job required skills. (Managing to Payroll Training Course Instructor Guide, 1986)

For example, assume a position was classified WG-4204-10. The WG indicates that the position is under the Federal Wage System pay plan. The 4204 indicates that the position calls for a pipe-fitter. The 10 is the grade of the position and indicates that the position requires a journeyman pipe-fitter's skill level. The pay plan and grade specify that the Managing to Payroll cost of this position will range from $11.87 an hour to $13.86 an hour (in the Salinas-Monterey California area) depending on the pay step of the particular employee. (Job grading standard WG 4204, 1969)

C. THE MINIMUM REQUIRED PAYROLL

The Most Efficient Organization for the Public Works Department, developed under the guidelines of the Navy's Commercial Activities Program, is the basis for determining the number and grade of the civilian positions in the Public Works Department. (Staff Interviews, Summer, 1988) The current Most Efficient Organization (MEO) was certified in

1983. (Naval Postgraduate School Commercial Activities Coordinator Memorandum of 14 June, 1983)

The Navy Commercial Activities Program is intended to improve the efficiency of Naval activities through competition with the private sector. A Naval commercial activity, such as the Naval Postgraduate School Public Works Department, prepares an estimate of its operating costs. This estimate is then compared to estimates received from private sector firms. If the Navy's estimate is the lowest, then performance of the commercial activity is continued as a Naval function. If a private sector estimate is the lowest, then that firm is considered as a potential contract operator of the commercial activity for the Navy. The Navy civilian employees who are affected by the change have first refusal rights to job offers from the firm winning the contract to operate the commercial activity. The MEO is part of the Navy cost estimate. It is the Navy's best estimate of the minimum number of positions and payroll required to operate the activity. (Chief of Naval Operations Instruction 4860.7B, 1986) If the Navy wins the bid competition, it is probable that the private sector firms bidding for the contract could not operate the facility with fewer positions or a cheaper payroll than that represented by the MEO. (Staff Interviews, Summer, 1988) The public Works Department competed with the private sector

in 1984 and won. The Department is scheduled to compete again in 1989. (Staff Interviews, Summer, 1988)

Table 2 is a comparison of the 1983 MEO for the Public Works Department and the current structure of civilian positions. The number of positions listed in the 1983 MEO for each particular grade are presented in the column titled "MEO." The number of positions currently authorized for each particular grade are presented in the column titled "CA." The estimated annualized Managing to Payroll cost for each particular grade is presented in the column titled "Payroll." It is computed by multiplying the pay for the representative step for each grade by the number of positions in that grade. The representative step for the General Schedule is four. The representative step is two for the Federal Wage System. This is the standard method used to estimate the cost of civilian positions. (Staff Interviews, Summer, 1988) The representative step is used for the current organization instead of actual pay steps so that the differences between the two organizations caused by position number and grade changes will be clearer.[1] The amounts listed in the payroll column for the MEO are based on current pay schedules. The MEO payroll would be the estimated annualized payroll for the Public Works Department if the 1983 MEO were in place in May of 1988. The

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[1]Recall from Chapter II that pay steps are determined by an employee's time in service. Pay plan and grade are determined by the position's classification. (Young, 1986)

TABLE 2

1983 MEO COMPARED TO THE JUNE 1988 CURRENTLY AUTHORIZED POSITIONS

GRADE	MEO	PAYROLL	CA	PAYROLL	VARIANCE
GS-3	1	13241	0	0	+13241
GS-4	6	89178	9	133767	-44589
GS-5	4	66520	4	66520	0
GS-6	1	18537	0	0	+18537
GS-7	2	41196	5	102990	-61794
GS-8	1	22812	1	22812	0
GS-9	5	125995	3	75597	+50398
GS-10	0	0	1	27749	-27749
GS-11	5	152440	6	182928	-30488
GS-12	1	36539	2	737078	-36539
GM-13	0	0	1	43452	-43452
TOTALS	26	566458	32	728893	-162435
MEAN GRADE		GS-7.19		GS-7.218	

GRADE	MEO	PAYROLL	CA	PAYROLL	VARIANCE
WG-2	1	16600.32	0	0	+16600.32
WG-3	6	106644.48	6	106644.48	0
WG-4	8	151079.68	3	56654.88	+94424.80
WG-5	3	60176.16	5	100293.60	-40117.44
WG-6	9	191092.32	4	84929.92	+106162.40
WG-7	6	134311.68	4	89541.12	+44770.56
WG-8	7	165060.00	14	330120.00	-165060.00
WG-9	9	222972.48	12	297296.64	-74324.48
WG-10	24	259065.60	26	310878.72	-51813.12
WG-11	3	81240.96	3	81240.96	0
WG-12	2	56508.16	1	28254.08	+28254.08
TOTALS	78	1444751.84	78	1485854.40	-41102.56
MEAN GRADE		WG-7.654		WG-9.474	

GRADE	MEO	PAYROLL	CA	PAYROLL	VARIANCE
WL-3	0	0	1	19555.68	-19555.68
WL-10	0	0	5	142423.20	-142423.20
TOTALS	0	0	6	161978.88	-161978.88
MEAN GRADE		NA		WL-8.833	

TABLE 2 (CONTINUED)

GRADE	MEO	PAYROLL	CA	PAYROLL	VARIANCE
WD-8	1	33661.76	5	168308.80	-134647.04

GRADE	MEO	PAYROLL	CA	PAYROLL	VARIANCE
WS-8	1	31398.08	1	31398.08	0
WS-9	1	32508.96	0	0	+32508.96
WS-10	2	67323.52	3	100985.28	-33661.76
WS-11	1	34521.12	1	34521.12	0
WS-12	2	71138.24	0	0	+71138.24
WS-13	0	0	0	0	0
WS-14	1	38440.64	2	76881.28	-38440.64
WS-15	0	0	0	0	0
WS-16	0	0	1	42276.32	-42276.32
TOTALS	8	275330.56	8	286062.08	-10731.52

MEAN GRADE WS-10.75 WS-11.625

TOTALS FOR THE DEPARTMENT

	POSITIONS	ESTIMATED PAYROLL
MEO	113	$2,320,202.16
CA	129	$2,831,097.16
VAR	-16	- $510,895.00

Fiscal year 88 Managing to Payroll Budget Control: $2,937,688.00

Actual number of employees as of May, 1988: 120

Actual annualized payroll as of May, 1988: $3,131,049.00

annualized payroll is a position's daily Managing to Payroll cost (excluding overtime and differentials) multiplied by the number of paid days in a year. The number of paid days in a year is set by the U.S. Office of Personnel Management. The number is based on five day work weeks adjusted for leap years. There were 262 paid days in fiscal year 1988.

(Staff Interviews, Summer, 1988) The amounts listed in the variance column are computed by subtracting the amounts in the CA payroll column from the amounts in the MEO columns. A positive variance means that the current organization is less expensive than the MEO. A negative variance means that the current organization is more expensive than the MEO. The mean grade is an indicator of the classification levels of the civilian work force. The mean grade is computed with the formula:

$$\frac{\sum_{i=1}^{N} X_i F}{N}$$

where:

X is the particular grade level;

F is the number of positions in that grade level;

N is the number of grade levels. (Weiss and Hassett, 1987)

The number of authorized positions have increased since 1983 through the programming process of the Planning, Programming, Budgeting System. The Programming process estimates the number of civilian positions that will be required to accomplish the Public Works Department's assigned tasks. These estimates are made as much as two years in advance. The estimates are based on the nature of the tasks assigned and the amount of payroll funds expected to be available. The increased number of positions has not resulted in an increased payroll budget authorization. The

authorized payroll is determined by the budget process of the Planning, Programming, Budgeting System. The actual amount of payroll funds available to the School is determined by Congressional action and budget allocation decisions made by the Comptroller of the Navy and the Field Support Activity. These decisions are made just prior to the start of each fiscal year, which may be as much as two years after the programming decisions are made. A program increase does not necessarily cause a complementary budget increase. Sufficient funds may not be available to support all the civilian positions approved during the programming process. (Principles of Navy Budget, 1987 and Staff Interviews, Summer, 1988)

The actual annualized payroll of $3,131,049.00 is 10.595% higher than the estimated payroll of $2,831,097.16 due to differences between the actual pay steps of current employees and the representative pay step for each grade used to compute the table. If the 1983 MEO were in place in 1988, then the Public Works Department would need a payroll between $2.5 million and $2.6 million to fill every position. In order to retain all 120 employees that were on board in May, 1988, the Department required a payroll of $3,131,049.00. However, the fiscal year 1988 Managing to Payroll budget control was only $2,937,688.00. Reclassifying positions and returning to the 1983 MEO wherever possible would be one way to keep payroll

expenditures within the control. The next section describes the problems the Public Works Department would face if it tried to carry out such a policy.

D. TAILORING THE CIVILIAN WORK FORCE TO THE PAYROLL BUDGET CONTROLS

The Managing to Payroll Program emphasizes the use of position management and classification actions to tailor the civilian positions to the authorized payroll (Managing to Payroll Training Course Instructor Guide, 1986). However, position management and classification actions are often found to be impractical.

Line managers are not free to reclassify positions at will just to meet payrolls. The United States Office of Personnel Management maintains job grading and classification standards for almost every position in the Federal Government. All the positions in the Public Works Department are covered by these standards. Position classifications must conform to these standards. Individual employees may file grievances or the local employee's union may file an unfair labor practice charge if a position's classification does not conform with the applicable standard published by the United States Office of Personnel Management. (Staff Interviews, Summer, 1988)

There are other laws and regulations that inhibit a line manager's ability to reduce his payroll through position management and classification. The most significant are the

reduction in force or RIF regulations. Any action that downgrades or eliminates a position held by a non-temporary employee constitutes a reduction in force, or RIF action. (Staff Interviews, Summer, 1988)

A reduction in force is a complicated and often costly process. The first step is to provide all affected employees with a written notice of the activity's intentions at least 30 days before the RIF is to take place. The notice details exactly which positions will be affected, which employees will be separated, which employees will change jobs, and which employees will have rights to other positions. An employee may appeal the RIF at any time from the day after the effective date of the RIF up to 20 calendar days after the individual is either separated or moved to another job. If the appeal is upheld by the Merit Systems Protection Board[2], then the agency must reinstate the employee and pay any salary lost due to the RIF action. (Young, 1986)

Once the affected positions are determined, they are grouped by competitive level. A competitive level is a group of positions of the same grade and classification series which are similar enough in duties, qualifications, pay schedules, and working conditions to enable employees to

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[2]The Merit Systems Protection Board is an independent, judicial agency charged with protecting the integrity of the Federal Merit System against partisan political or other abuse. It is also charged with protecting the Congressionally defined rights of employees. (Young, 1986)

be interchanged without any loss of productivity. Affected employees are then ranked on a retention register for each competitive level. Retention registers are composed of three sequential groups determined by the employees' type of appointment. Group I consists of career employees who are not on probation. Group II consists of career employees on probation and career-conditional employees. Group III is made up of term employees and temporaries. These groups are then divided into three sequential sub-groups. These sub-groups are disabled veterans, able-bodied veterans, and non-veterans. Individual employees are ranked in each subgroup by their service dates. Service dates reflect an employee's total Federal service. Additional years of service can be earned by high performance ratings. For example, an outstanding performance rating earns an employee credit for four additional years of service. Employees to be separated are selected from the lowest sub-group on a retention register, starting with the employee who has the least amount of service. For example, a disabled veteran with a career appointment has retention rights over everybody else on the register. (Young, 1986)

Employees in Group III do not have any right to another job. Employees in Groups I and II are entitled to a reasonable offer of assignment, if a suitable job is available. They can take these jobs by either bumping another employee, or by retreating to a former position.

Bumping is taking the job of another employee in a lower sub-group. Retreating is taking a job that an employee was promoted out of that is now held by an employee in the same sub-group. In other words, a veteran can either bump a non-veteran or retreat to a job held by another veteran. (Young, 1986) Figure 1 is an example of a retention register.

RETENTION REGISTER

Group I: Permanently appointed employees.

Sub-groups

AD: Disabled veterans ranked by years of service.

A: Able-bodied veterans ranked by years of service.

B: Non-veterans ranked by years of service.

Group II: Career Conditional employees.

Sub-groups

AD: Disabled veterans ranked by years of service.

A: Able-bodied veterans ranked by years of service.

B: Non-veterans ranked by years of service.

Group III: Temporary and Term employees.

Sub-groups

AD: Disabled veterans ranked by years of service.

A: Able-bodied veterans ranked by years of service.

B: Non-veterans ranked by years of service.

Figure 1. Retention Register

Employees affected by RIF's retain their original grades for two years following the RIF. If, after two years, their pay exceeds the maximum rate for the new lower grade, then the employees keep the higher pay rate. But, they receive only 50 percent of any subsequent pay rate increases. When RIF affected employees' pay is less than, or equal to the maximum rate for the new lower grade, they are paid at the maximum rate for the new lower grade and receive 100 percent of any subsequent pay rate increases. An employee's pay cannot exceed 150% of the maximum rate for the grade to which that individual has been reduced. It is possible for an employee to receive a pay raise as the result of a RIF. (Young, 1986)

Employees who have been employed continuously for 12 months or longer are eligible for severance pay if they are separated due to a RIF action. Employees are not entitled to severance pay if they have been offered a comparable job, or have accepted any job with a contractor that replaced the employee's agency under the Commercial Activities Program. (Young, 1986) The maximum severance pay an employee can receive is one year's salary. (Young, 1986) Severance pay is paid out of the separating activity's Managing to Payroll budget (Staff Interviews, Summer, 1988).

It is often cheaper to reclassify vacant positions than to institute RIF actions. As an example of the cost differences between reclassifying vacant positions and those

filled with permanent employees, consider two hypothetical situations. The first situation concerns John, a WG-10 step 2 pipe-fitter. John is a permanent employee. His position has been reduced two grades due to a reclassification action effective on 1 October, 1988. In the other situation, a vacant WG-10 step 2 pipe-fitter position has also been reduced two grades due to a reclassification action. Sally has been hired effective 1 October, 1988 to fill the new WG-8 pipe-fitter position. Sally starts at pay step 1.

Tables 3 and 4 illustrate these examples. Table 3 shows the cost differences between hiring Sally to fill the new WG-8 position and reclassifying John's WG-10 position to a WG-8 position. Reclassifying a vacant position and then filling it with a new employee, rather than reclassifying an occupied position yields a first year savings of $3,290.75. Table 4 shows the cost savings achieved by reclassifying John's WG-10 position to a WG-8 position. Reclassifying an occupied position does not yield any savings in the first year.

The costs in the tables are those covered by the Managing to Payroll program. Overtime and differentials are not considered. The pay rates in the tables were provided by the Naval Postgraduate School Civilian Personnel Office and were effective for the Monterey-Salinas California areas as of 3 May, 1988.

TABLE 3

COST DIFFERENCES BETWEEN HIRING SALLY TO FILL THE NEW WG-8 POSITION AND RECLASSIFYING JOHN'S WG-10 POSITION TO A WG-8 POSITION

	SALLY (WG-8)	JOHN (WG-8, ex WG-10 step 2)	
Year	Hourly pay rate and annual cost	Hourly pay rate and annual cost	Cost Savings
1988	10.79 (step 1) $22,615.84	12.36 (WG-10 step 2) $25,906.56	$3,290.72
1989	11.25 (step 2) $23,580.00	12.36 (WG-10 step 2) $25,906.56	$2,326.56
1990	11.69 (step 3) $24,502.24	12.60 (WG-8 step 5) 26,409.6	$1,907.36
1991	12.15 (step 4) $25,466.40	12.60 (WG-8 step 5) $26,409.60	$943.20
1992	12.60 (step 5) $26,409.60	12.60 (WG-8 step 5) $26,409.60	0

Total cost savings over the five year period: $8467.84

John retains his original pay rate for two years following the RIF action. He then advances to the highest pay step of the new position. Sally advances one pay step each year.

TABLE 4

COST SAVINGS ACHIEVED BY RECLASSIFYING JOHN'S WG-10 POSITION TO A WG-8 POSITION

	JOHN (WG-10, step 2)	JOHN (WG-8, ex WG-10 step 2)	
Year	Hourly pay rate and annual cost	Hourly pay rate and annual cost	Cost Savings
1988	12.36 (step 2) $25,906.56	12.36 (WG-10 step 2) $25,906.56	0
1989	12.85 (step 3) $26,933.60	12.36 (WG-10 step 2) $25,906.56	$1,027.04
1990	13.36 (step 4) $28,002.56	12.60 (WG-8 step 5) 26,409.6	$1,592.96
1991	13.86 (step 5) $29,050.56	12.60 (WG-8 step 5) $26,409.60	$2,640.96
1992	13.86 (step 5) $29,050.56	12.60 (WG-8 step 5) $26,409.60	$2,640.96

Total cost savings over the five year period: $7,901.92

John retains his original pay rate for two years following the RIF action. He then advances to the highest pay step of the new position. If his position is not reclassified, he would advance one pay step each year.

Reclassifying John's WG-10 position to a WG-8 position constitutes a RIF action. Tables 3 and 4 do not consider the costs of administering the RIF procedures. RIF actions may generate employee appeals, Congressional inquiries, and Union unfair labor practice charges. These can produce extra staff work for the Civilian Personnel Office and thereby add to the cost of the RIF. Downgrading an occupied position may not produce cost savings for as much as five

years after the reclassification. Eliminating occupied positions may not produce cost savings for as much as two years. Past RIF's have been so costly, that they can now only be authorized by the Comptroller of the Navy. (Staff Interviews, Summer, 1988)

E. OTHER FACTORS WHICH AFFECT PAYROLL EXPENDITURES

Merit pay, promotions, overtime, and within grade increases also affect a line manager's ability to manage payroll expenditures. This section discusses each of these. Merit pay is discussed first. Promotions are discussed next, followed by the affects of within grade increases and local economic conditions.

Supervisors and managers in grades GS-13 through GS-15 fall under the Performance Management and Recognition program. This program is also known as the Merit Pay System. Their pay is determined by their performance ratings as well as the grade of their position. The higher an employee's performance grade, the higher that individual's pay. (Young, 1986) The Public Works Department has one Merit Pay employee. (Staff Interviews, Summer, 1988)

The line manager may have little control over the promotions of subordinates. Positions must be classified in accordance with U.S. Office of Personnel Management standards. If significant additional duties or responsibilities are added to a position, then that position has to be

upgraded. If an employee feels that his or her position is not classified in accordance with the current standards, the individual can file a grievance. An upheld grievance may entitle the employee to back pay at the rate applicable to the new higher classification. (Staff Interviews)

Employees are promoted to higher graded positions in two ways. One, the employee's current position is reclassified upward. Two, the employee competes for and is appointed to a higher graded position. An employee promoted from one General Schedule grade to another must receive a pay increase greater than, or equal to a two pay step increase in the grade from which the employee has been promoted. An employee promoted from one Federal Wage System grade to another must receive a pay increase greater than, or equal to a one pay step increase in the grade from which the employee has been promoted. When Federal Wage System employees are promoted to positions classified under the General Schedule, they are paid at the next General Schedule pay step above the rate they were making in the Wage Grade position. (Young, 1986)

A line manager cannot deny a higher graded position to a qualified employee simply because it would be cheaper to appoint someone else. For example, assume the line manager wants to fill a GS-8 vacancy. The cost difference between hiring a new employee at the GS-8 step 1 level or filling the vacancy with a currently employed GS-7, step 4 is

$1,107.00 per year. This cost difference cannot be considered when filling the vacancy. If the currently employed GS-7 has the same qualifications as the other applicants, and applies for the position, then that individual must be hired, rather than the new employee. (Staff Interviews, Summer, 1988)

Overtime is paid for work in excess of eight hours per day or 40 hours per week. Employees are paid one and one-half times their basic rate for overtime and twice their basic rate for Sunday and holiday work. Additionally, employees who are normally scheduled to work Sundays are paid extra. This extra amount, called a differential is 25 percent of their base pay rate. Employees who are normally scheduled to work on the second and third shifts receive extra pay. The differential for the second shift is seven and one-half percent of their base rate. Ten percent of the base rate is the differential for the third shift. No employee may receive overtime or differential pay that will cause his or her total pay to exceed the GS-15, step 10 rate ($71,377.00 per year as of May 1988). (Young, 1986)

Each General Schedule grade has ten sequential pay steps. Federal Wage System grades have five sequential pay steps. Employees who receive satisfactory performance ratings for a specified period of time are automatically entitled to an increase in pay step. (Practical Comptrollership Course Manual, 1988)

The cost of these within grade increases can be significant. The $299,951.84 difference between the actual and estimated currently authorized payrolls in Table 2 is due to differences between the actual pay steps of current employees and the representative step for each grade used to compute the estimated payroll. The annual cost of a WG-7, step 5 employee is $2,703.84 higher than the annual cost of a WG-7, step 2 employee. (Wage Rates, 1988)

Local economic conditions also have an effect on payroll management. It is difficult for the Public Works Department to hire people for the lower graded positions because the cost of housing in the Monterey area is high. Additionally, people with the skills needed by the Public Works Department often do not respond to job offerings. For example, two of the vacancies that have gone unfilled for several months due to the lack of qualified applicants are a WG-9 carpenter and a WG-11 electrician. A WG-9 step 5 carpenter earns $13.22 per hour. The market rate in the local area for journeyman carpenters is $19.93 per hour. A WG-11 step 5 electrician earns $14.48 per hour. The market rate in the local area for journeyman electricians is $18.80 per hour. (Staff Interviews, Summer, 1988; Wage Rates, 1988; The Carpenter's Union, Local 1323 and The International Brotherhood of Electrical Workers, Local 234)

Vacant positions can increase the workload for other employees. The demands on the Public Works Department do

not decrease when positions become vacant. A shortage of carpenters, for example, means that each individual carpenter will have to do more work than originally planned. These additional work requirements increase overtime expenditures. (Staff Interviews, Summer, 1988)

F. MANAGING TO THE PAYROLL BUDGET CONTROLS

The School's Comptroller allocates the payroll to the Public Works Department by sub-activity groups (SAG).[3] These allocations are called budget controls. Actual expenditures for each SAG should not exceed the budget controls. Position management and classification actions are not used to keep payroll expenditures less than budget controls. Normal attrition, separating temporary employees, transferring funds between AG's and SAG's, and contracting with local firms are the management actions employed to keep the Public Works Department payroll expenditures below the budget controls. (Staff Interviews, Summer, 1988)

If normal attrition does not sufficiently reduce payroll expenditures, then temporary employees are separated. If payroll expenditures are still too high, then the School's Comptroller will transfer money from another SAG (if it's available) to the SAG in question. If money must be transferred from another activity group (AG) to meet the actual expenditures, then the School's Comptroller must

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[3]Activity groups (AG) and sub-activity groups (SAG) are discussed in Chapter III.

obtain permission of the Field Support Activity. Transferring money between AG's and SAG's cannot be done with impunity. If the funds for a particular AG or SAG are not spent, then subsequent budgets for that AG or SAG will probably be reduced by the unspent amount. Additionally, the budget for the AG or SAG with the high payroll expenditure is equally likely to be reduced the following year. The Field Support Activity and the Comptroller of the Navy view transfers between AG's and SAG's as evidence of poor management. (Staff Interviews, Summer, 1988)

As mentioned above, The Director of Military Operations is the designated line manager for the Managing to Payroll program. Two SAG's that pertain to the Public Works Department also pertain to other departments under the supervision of the Director of Military Operations. SAG F3FD also covers Fire Department employees. SAG F3FR also covers Security Department employees. Vacant positions in the Fire and Security Departments can be used to offset excess payroll expenditures in the Public Works Department. For example, suppose the Public Works Department payroll expenditures in SAG F3FD are too high by $26,000.00 (one WG-10 employee). If the Fire Department has a WG-10 position vacant, then the total budget control for the SAG is not exceeded and no action is required. (Staff Interviews, Summer, 1988)

Contracting with local firms is another management action employed by the Public Works Department to keep payroll expenditures below the budget controls. The Public Works Officer contracts with local firms to accomplish work historically performed by Public Works Department employees. He does this to reduce payroll expenditures. Contracting with local firms allows him to let positions remain vacant and still accomplish required work. Currently 85 percent of the grounds keeping tasks and all of the painting and janitorial tasks are under contract to local firms. These contracts are not funded from the Managing to Payroll budget. (Staff Interviews, Summer, 1988)

In addition to the management actions mentioned above, the School formally requested more Public Works payroll funds from the Comptroller of the Navy. The School has requested an increase of $483,000.00 in payroll and benefits for the Public Works Department. The Public Works Department wants the additional funds to reduce a current backlog of job orders, and to improve routine maintenance and repair efforts. The Comptroller of the Navy has denied the request. (Staff Interviews, Summer, 1988)

The Public Works Department's approach to payroll management was successful in fiscal year 1988. In May of 1988, the Department's annualized payroll was $193,361.00 above the Managing to Payroll budget controls. By the end of the fiscal year in September, the payroll had been

reduced and the budget controls had not been exceeded. (Staff Interviews, Summer, 1988)

G. DISCUSSION OF THE MANAGING TO PAYROLL PROGRAM

The Managing to Payroll program emphasizes the use of position management and classification actions to tailor civilian work force structures to payroll budget control numbers (Managing to Payroll Training Course Instructor Guide, 1986). However, Federal Civil Service regulations often make these approaches impractical. Not filling vacant positions, reclassifying vacant positions, and separating temporary employees are the only practical ways line managers can control payroll expenditures. (Staff Interviews, Summer, 1988)

The program has not given the Public Works Department the ability to tailor its civilian work force structure to the payroll budget control numbers. The program has done nothing to change the existing Federal Civil Service laws and regulations. These laws and regulations limit a line manager's ability to change civilian work force structures. Essentially, only vacant positions can be downgraded or eliminated. Only temporary employees can be separated. Permanent employees cannot be reclassified as temporaries. Not filling vacant positions, reclassifying vacant positions, and separating temporary employees are the only practical ways line managers can control payroll expenditures. The Secretary of the Navy does not have the

authority to change these laws or to exempt the Navy from them. Only the Congress has that authority. (Federal Personnel Manual, Section 511, 1969)

Transferring position management and classification authority to line managers is not a prerequisite for reducing payroll expenditures. The Comptroller of the Navy had the authority before the Managing to Payroll program was initiated to set budget controls for civilian payrolls. Management actions employed to keep the Public Works Department payroll expenditures from exceeding the budget controls were also available before the Managing to Payroll program was implemented. (Staff Interviews, Summer, 1988)

H. ANALYSIS OF THE PUBLIC WORKS DEPARTMENT PAYROLL

This section analyzes the public Works Department's current civilian work force structure as it relates to the Department's payroll. The Department has more temporary positions than it did in 1983. This section explains why the increase in temporary positions has given the Department more flexibility in controlling payroll expenditures than it had in 1983. This section also points out three possible opportunities to reduce future payroll obligations.

The number of temporary positions has increased from 13 in the 1983 Most Efficient Organization (MEO) to 34 in 1988. The increase in the number of temporary positions has given the Department more flexibility in controlling payroll expenditures because separating temporary employees is not a

RIF action (Staff Interviews, Summer, 1988). The estimated total cost of these 34 temporary positions is $742,096.00. (Federal Wage System Wage Rate Schedules for the Wage Area of Salinas-Monterey, California, 19 April, 1988.)

Opportunities to reduce future payroll obligations may exist in three areas of the Department's work force structure. The first area concerns the average grade of the Department's WG positions. The average grade of the WG positions has increased 23.8% over the 1983 MEO. Returning the WG position average grade to the 1983 MEO level could reduce future payroll obligations by as much as $3600.00 per year. (Federal Wage System Wage Rate Schedules for the Wage Area of Salinas-Monterey, California, 19 April, 1988.) However, reducing the average grade of the WG positions could make the Department less competative in the local civilian labor market (Staff Interviews, Summer, 1988).

The second area involves the number of supervisors currently employed by the Department. The number of supervisory positions[4] has increased by 87.5% over the 1983 MEO. In the 1983 MEO, the ratio of supervisors to workers was 1:10. The ratio for the current organization is 1:6. Returning to the number of supervisors in the 1983 MEO could reduce future payroll obligations by as much as $205,430.00 per year. (Federal Wage System Wage Rate Schedules for the

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[4]A supervisory position is any position with a GM, WS, or WL classification (Young, 1986).

Wage Area of Salinas-Monterey, California, 19 April, 1988.) Returning the WG position average grade and the number of supervisors to what they were in the 1983 MEO organization could permanently reduce the Department's payroll by as much as 7% from the fiscal year 88 amount.

The third area is the total number of currently authorized positions. The currently authorized number of positions has grown 14% since the MEO was certified in 1983. However, the estimated payroll for the current organization is 22% higher than the estimated payroll for the 1983 MEO. The actual annualized payroll as of May 1988 was 35% higher than the estimated payroll for the 1983 MEO. There have been 58 position classification and management actions that affected the payroll since 1983. Thirty-seven positions were upgraded. Twenty-one positions were downgraded. (Staff Interviews, Summer, 1988) Returning completely to the 1983 MEO could reduce the Department's payroll by as much as $565,024.00 per year.

Significant payroll budget increases are unlikely in the next several years (Staff Interviews, Summer, 1988). The Managing to Payroll program has given the Public Works Department the authority to aggressively review (and where necessary change) the classification of all vacant civilian positions. A review of each position, as soon as it becomes vacant, could be the first step toward reducing future

payroll obligations without diminishing the Departments ability to carry out its assigned tasks.

V. CONCLUSIONS AND QUESTIONS FOR FURTHER RESEARCH

A. INTRODUCTION

The focus of this thesis is the US Navy Managing To Payroll program and the payroll budget execution process of the Naval Postgraduate School Public Works Department. The primary research question is: Has the Managing To Payroll program allowed the Public Works Department to better control civilian personnel costs? The secondary research question is: Has the Managing To Payroll program given the Public Works Department the ability to change its civilian work force structure to conform to payroll budgets set by higher authority? The empirical evidence gathered for this thesis indicates that the answer to the primary question is yes. The empirical evidence gathered for this thesis indicates that the answer to the secondary question is no.

This chapter presents four conclusions. They are based on the material presented in Chapters II-IV. The chapter concludes with two questions for further research. The four conclusions are:

1. The Managing To Payroll program has improved the control of civilian personnel costs in the Public Works Department.

2. The Program has not given the Public Works Department the ability to change its civilian work force structure to conform to payroll budget control numbers.

3. Transferring position management and classification authority to line managers is not a prerequisite for reducing payroll expenditures.

4. The Program has provided an opportunity to progressively reduce the Public Works Department payroll, perhaps returning to the 1983 Most Efficient Organization.

B. CONCLUSIONS

The Managing to Payroll program has improved the control of civilian personnel costs in the Public Works Department.

The Managing To Payroll program has improved the control of civilian personnel costs in the Public Works Department. The program has done this by introducing new control numbers into the budget process. The Managing to Payroll budget controls set by the Comptroller of the Navy and the Field Support Activity have made payroll expenditures more visible to the Public Works Department and the School's senior management. The program has given the Public Works Department greater responsibility and accountability for managing civilian personnel costs. The program has caused the Public Works Department to make deliberate decisions on payroll spending based on position importance, program contribution, and individual competence. The Public Works Officer must decide which positions to leave vacant and which temporaries to separate in order to keep payroll expenditures below the budget controls. The Public Works Department's approach to payroll management was successful in fiscal year 88. In May of 1988, the Department's

annualized payroll was $193,361.00 above the Managing To Payroll budget controls. By the end of the fiscal year in September, the number of individuals on the payroll had been reduced and the budget controls had not been exceeded. Without the Managing to Payroll program, money would probably have been transferred from other uses to pay for civilian personnel. However, since exceeding the payroll budget controls is prohibited by the Managing to Payroll program, and these controls are now more visible to senior management, action was taken by the Public Works Department to reduce payroll expenditures.

The Managing to Payroll program has not given the Public Works Department the ability to change its civilian work force structure to conform to payroll budget control numbers.

The Program has done nothing to change the existing Federal Civil Service laws and regulations. These laws and regulations limit the Public Works Officer's ability to change civilian work force structures. Essentially, only vacant positions can be downgraded or eliminated. Only temporary employees can be separated. Permanent employees cannot be reclassified as temporaries. Not filling vacant positions, reclassifying vacant positions, and separating temporary employees are the only practical ways the Public Works Officer can control payroll expenditures.

Transferring position management and classification authority to line managers is not a prerequisite for reducing payroll expenditures.

The Comptroller of the Navy had the authority before the Managing to Payroll program was initiated to set budget controls for civilian payrolls. The Managing to Payroll program did not give the Comptroller of the Navy any new authority to set budget controls. The management actions employed to keep the Public Works Department payroll expenditures from exceeding the budget controls were previously available. The Program did not give line managers any new authority to separate temporary employees or to leave civilian positions in their organizations vacant. However, the Managing to Payroll program has made reclassification of vacant positions easier for line managers. The program has done this by placing the activity civilian personnel office in a support role, rather than its traditional gate keeping role. As stated above, the Public Works Department's approach to payroll management reduced the Department's payroll obligations. Expenditures did not exceed the budget controls in fiscal year 1988. Position classification and management actions played a minimal role in reducing the payroll. The payroll was reduced because the payroll budget control numbers could not be exceeded.

The Program has provided an opportunity to progressively reduce the Public Works Department payroll, perhaps returning to the 1983 Most Efficient Organization.

Opportunities to reduce future payroll obligations may exist in three areas of the Department's work force structure. These three areas were discussed in Chapter IV. The first area involves the average grade of the WG positions. Returning the WG position average grade to the 1983 MEO[1] level could reduce future payroll obligations by as much as $3600.00 per year.

The second area involves the ratio of supervisors to workers. Returning to the number of supervisors in the 1983 MEO could reduce future payroll obligations by as much as $205,430.00 per year.

The third area involves the increase in the number of positions since 1983. Returning completely to the 1983 MEO could reduce the Department's payroll by as much as $565,024.00 per year.

Each time a position becomes vacant, its classification should be reviewed by the Public Works Department. The objective of these position classification reviews should be to reduce the Department's future payroll obligations. Care

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[1]The Most Efficient Organization (MEO) was discussed in Chapter IV. It is probable that the 1983 MEO provides the best available estimate of the minimum payroll required to operate the Public Works Department. (Staff Interviews, Summer, 1988)

must be exercised to ensure that the Department stays competitive in the local labor market.

Significant payroll budget increases are unlikely in the next several years. The Managing to Payroll program should give the Public Works Department the incentive to aggressively review (and where necessary change) the classification of all vacant civilian positions. A review of each position, as soon as it becomes vacant, could be the first step toward reducing future payroll obligations without diminishing the Departments ability to carry out its assigned tasks.

C. QUESTIONS FOR FURTHER RESEARCH

Is it possible to develop quantitative input and output measures that can be used as a basis for accurately determining the appropriate Public Works Department payroll budget?

All government agencies must use some form of non-market valuation to determine the nature and quantity of output. Even priced outputs are non-market valuations because the government usually acts as either a monopsonist or a monopolist whenever it enters the market place. Decisions about inputs and outputs are generally arrived at through a complex political and bureaucratic process. Managers must negotiate internal productivity and cost standards without the benefit of a market price to guide them. Likewise, they must also negotiate with higher authority for the resources

needed to function. (Ramanathan, 1982) Quantitative input and output measures could be used as market price surrogates in the negotiating process. These quantitative measures could improve the negotiating process by providing a means to link desired performance with resource requirements. Developing quantitative input and output measures that could be used as a basis for accurately determining future Public Works Department payroll budgets could improve the Naval Postgraduate School's budget formulation process.

Does the Naval Postgraduate School budget processes provide line managers with incentives to reduce payroll expenditures?

Budget inertia is a common budget problem in government. Managers tend to view current funding levels as the minimum requirement without any real critical analysis. They seek only increments in spending levels because the budget process provides no incentive to these managers to look for ways to reduce spending or improve efficiency. (Ramanathan, 1982) If incrementalism is a significant problem in the Naval Postgraduate School budget process, then identifying the specific causes could improve the School's budget process.

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